The $134 billion annual Sustainable Development Goal (SDG) funding gap is spurring the health and development community to explore new avenues for capital and mechanisms for its deployment. There is an estimated $200 trillion in funding available from global capital markets – mobilizing only 1% of this would address the entire SDG funding gap. Financing mechanisms that mobilize greater private and public investment in global health are generating significant interest in international development and investor communities.

Merck for Mothers is exploring novel financing approaches to close funding gaps for maternal health. We believe that innovative financing mechanisms – such as performance-based financing, development impact bonds and equity investments – provide an enormous opportunity to unlock additional funding across sectors and allocate resources more effectively to improve health. These mechanisms are not new but are often referred to as “innovative financing” because they are being tested for new geographies and for new purposes – such as improved health.

We believe innovative financing may be most necessary for early-stage entrepreneurs, struggling to attract the capital they need to achieve scale. Today, many businesses have the potential to transform health service delivery. However, early stage businesses are not mature enough to attract the investment required to adequately test their model, and eventually achieve scale. And larger, more mature companies need financing to incentivize expansion, so they can provide broader social value. We need to create financing opportunities for global health disruptors, so they can operate at scale, expand their services to reach broader populations, and meet the demand for their services.

**OUR POINT OF VIEW**

We are not committed to one kind of financing. Rather, we are committed to a flexible approach that offers innovators the kind of financing they need considering their current stage of growth. For example, we may offer a new, disruptive company grant financing to de-risk a larger loan. Or, we might offer an impact investment to a larger, more established company to incentivize a more socially-responsible growth trajectory. From our perspective, innovative financing should provide the necessary due diligence to understand what the financing need is, and then help to connect that need with the best financing instrument.

**OUR APPROACH**

In order to close funding gaps and improve the efficiency of capital flows, Merck for Mothers is experimenting with the application of innovative financing to global health. Our unique positioning as a private sector entity with deep connections in philanthropy and global health positions us to understand what it takes to meet a business bottom line and advance social good. We are working with new partners to test and refine different innovative financing approaches, and will utilize our learnings to inform broader applications of innovative financing mechanisms for global health.
Merck for Mothers’ use of innovative financing includes funding mechanisms that range from traditional development assistance to socially responsible investing (as shown in the figure below).

<table>
<thead>
<tr>
<th>TRADITIONAL DEVELOPMENT ASSISTANCE</th>
<th>CONDITIONAL FUNDING</th>
<th>CATALYTIC FUNDING</th>
<th>IMPACT INVESTING</th>
<th>SOCIALLY RESPONSIBLE INVESTING</th>
<th>COMMERCIAL INVESTING</th>
</tr>
</thead>
<tbody>
<tr>
<td>e.g. Grants</td>
<td>e.g. Pay-for-success (impact bonds &amp; milestones based payments), debt swaps</td>
<td>e.g. Seed funding (DIV, Grand Challenges), guarantees, public-private mechanisms</td>
<td>e.g. Environmental, social, or corporate governance investing, thematic investing</td>
<td>e.g. Investments or loans at market rates</td>
<td>Source: USAID Center for Impact and Innovation. Investing for Impact. 2017.</td>
</tr>
</tbody>
</table>

**HIGHLIGHTS OF OUR WORK**

**Performance-Based Payments:** Merck for Mothers engages in various partnerships that use performance-based contracts. These agreements work differently than typical grants by paying for success – achievement of program outcomes – instead of implementation of activities alone.

**Example** | In Senegal, in collaboration with the Bill & Melinda Gates Foundation, we supported the scale up of an innovative supply chain model to deliver modern contraceptives and other essential medicines to “last mile” health facilities. To accelerate Senegal’s national expansion of the Informed Push Model, donors awarded the implementing partner, IntraHealth International, performance-based payments for reaching all 14 regions of the country and keeping stock-outs below 2%.

**Development Impact Bonds:** Merck for Mothers has been a pioneer in testing development impact bonds (DIBs), which leverage private investment to support health and development objectives. As an outcome funder, Merck for Mothers will re-pay investors for the initial capital they provide to implementers once results are achieved. Through DIBs, risk of failure is shifted to investors, allowing governments and other donors to spend resources more effectively.

**Example** | Merck for Mothers is an outcome funder in the largest and most ambitious DIB to date, the first targeting maternal and newborn health, and the first DIB for health. The Utkrisht Impact Bond aims to improve maternal and newborn health outcomes in Rajasthan, which has one of the highest maternal mortality rates in India. Partners (USAID, UBS Optimus Foundation, Palladium) launched the $9 million, three-year initiative in January 2018 with the goal of improving quality maternity care for 600,000 women.

**Public Private Mechanisms:** Merck for Mothers establishes partnerships to mobilize public and private sector capital to improve maternal health outcomes. Often, Merck for Mothers’ role in these partnerships is to de-risk investments so that new partners contribute funding for innovations in global health.

**Example** | The Overseas Private Investment Corporation (OPIC) Financing for MOMs (Maternal Outcomes Matters) Alliance, to improve maternal health. Merck for Mothers will provide $5M in financing to businesses that are primed for impact on maternal health but require additional funding to de-risk investment opportunities and, thus, attract OPIC and other investors who expect both a social and financial return. Products and services should tie to improvements in maternal health and may include healthcare service delivery, supply chain, transportation, etc. Merck for Mothers’ financing role within this collaborative aims to complement the kind of financing partners can offer to meet recipients’ financing needs.

**Example** | Merck for Mothers contributes to the Global Financing Facility (GFF) for Reproductive, Maternal, Newborn, Child and Adolescent Health, which aims to mobilize support for developing countries to end preventable maternal, newborn, and child deaths. We recently renewed our commitment through an additional $5 million contribution to the GFF Trust Fund, which uses blended financing to de-risk investments that will support vulnerable and hard to reach populations.
Merck for Mothers also deploys socially responsible investing to catalyze innovations that have social value and the potential to become financially sustainable. By providing seed capital through an equity stake in new enterprises, Merck for Mothers’ investment supports the initial development and testing of new innovations and helps to build a path toward sustainability. Once our partners raise the capital they need, we relinquish our equity in their businesses and reinvest any gains in new innovations to reduce maternal mortality.

**Example** | In Kenya and India, we are supporting the development of Nivi – a social enterprise - that has developed a mobile phone-based service to help women 1) learn about their family planning options, 2) identify the method(s) they want, and 3) find local providers who offer quality services and have their preferred method(s) available. Nivi is leveraging our equity investment to reach more than 110,000 women. Their current reach positions the company to attract new sources of capital, making it less reliant on our initial investment.

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**CONTINUED EXPLORATION OF INNOVATIVE FINANCING**

Looking ahead, Merck for Mothers will continue to explore funding mechanisms that help us increase innovation in global health, ensure more sustainable approaches to financing, and collectively move the needle on maternal health. We will continue to share our lessons learned to help bring additional private sector capital into global health.

2 Ibid.
3 Ibid.

These programs are supported by funding from Merck, through Merck for Mothers, the company’s $500 million initiative to help create a world where no woman has to die giving life. Merck for Mothers is known as MSD for Mothers outside the US and Canada.